

Keir Starmer needs to get up to speed on economics

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Over the weekend [The Guardian](#) reported that:

Keir Starmer appealed to the Labour left to back his bid for the leadership on Saturday as he denounced the “free-market model” as a failure and backed higher taxes on the wealthiest to pay for better public services.

I had two immediate thoughts. One was that the comment on tax showed that Starmer does not get modern monetary theory. His comment implying we need to tax the wealthiest to pay for public services proves that. But that is an issue for another blog. The matter of concern here is his suggestion that the “free market model” is a failure. A number of thoughts flow from that.

The first is that it is surprising that this is contentious. Or that it is considered left wing. It isn't. The [Financial Times](#) has declared that the model of capitalism that we have had for forty years is in need of radical reform. So too has the [American Business Roundtable](#) that is made up of about 180 of the most influential US CEOs. It's a fact: capitalism as we have it is not working. The climate crisis is evidence of that. So too was the 2008 crash. It really should not be seen as radical to state an obvious fact that business knows to be true.

Second, then, why does this need to be said? I suggest that this is because the model of so-called free market economics is still taught in almost every university as if it is a) true and b) without alternative when c) it is based on assumptions that any rational human being will realise are completely absurd. There remain true believers in this fantasy. Most of them have never been near a real business. Their worldview is decidedly limited. They are either academics, or right-wing think tank wonks, or the politicians drawn from the ranks of the last group, in particular. This is where this issue becomes political: right wing politicians promote belief in an incredible creed, and it appears radical for the left to challenge it.

Third, the left does not help itself by promoting a vision of the economy that is hostile to the private sector. This makes no sense. As a matter of fact we live in a mixed

economy. In effect, almost every person in the UK has always done so. And any effective (in the sense of likely to be electorally successful) economic plan the left is going to put forward now is going to have to embrace that fact, for fact it will be.

And yet what we have forgotten to do is sing the mixed economy's praises, and note the fact that it works until undermined by dogma and the anti-market abuse which far too many right wing politicians and large companies promote in the name of supposed free markets when what they are really seeking to do is suppress competition to deliver monopoly profits to a few at cost to most in society.

I wrote in praise of the mixed economy in my book *The Courageous State*, in which I made it clear that any such state would promote the conditions in which genuine markets could flourish where appropriate whilst at the same time suppressing abuse by requiring the state run or regulate natural monopolies. I described the mixed economy using the metaphor of a cappuccino as follows:

A cappuccino economy is the mixed economy that exists within society (the cappuccino cup) with the state being represented by the strong black coffee that underpins the whole edifice, while the private sector is the hot frothy milk that is added to that coffee to work in combination with it to make the final product. The luxuries paid for out of our limited disposable incomes that add the gloss to the private sector are represented by the nutmeg or chocolate that float on top of the hot milk which represents the private sector as a whole. The spoon represents democracy that determines the mix between the coffee and milk, with sugar representing the sweeteners necessary to ensure that almost all accept the eventual outcomes determined by government.

The metaphor can be pushed a lot further: the saucer represents the welfare state that stops people falling out of society; the barista has the skills society needs and must perpetuate, the coffee-making machine and indeed the coffee shop in which most cappuccino is drunk are both representative of the infrastructure that is essential in any society, while the recipe is based on our wisdom and tradition of accumulated knowledge. The fact that cappuccino is very often drunk in a social environment is indicative of the fact that it is the exchanges within society that actually fulfil us as people and are the way in which we understand our purpose.

Most people I have ever described this metaphor to can instantly relate to it: this is the world in which many people live and it is the world that they understand. And yet there is no economic theory currently in use that describes this economy. And that, I suggest, is the real problem we face right now, and is the reason why we are in a mess.

I am still of that opinion. We still need an economics and an ethos that actually relates to the merits of the world of compromise in which balance is created in which we can and must actually live.

Keir Starmer looks to be the most likely person to replace Jeremy Corbyn as Labour

leader. In that role he most certainly needs to say, time and again, that the Tory myth that free markets work is complete nonsense. But he must be careful not to suggest that the alternative is state ownership and control of all activity. What is required is proper regulation of the markets that we need to ensure that abuse does not take place, appropriate taxes are paid and monopoly power is curtailed. That is a policy that all should be able to endorse. It is the way for Labour to go, I suggest.